**U.S. DEPARTMENT OF LABOR**
**EVALUATION OF GRANT CLOSEOUT**
**PRACTICES APPLIED TO**
**JOB TRAINING PARTNERSHIP ACT GRANTS**

**GRANTS AWARDED TO THE STATE OF IOWA**

**INDEPENDENT ACCOUNTANTS= REPORT**
**ON APPLYING AGREED-UPON PROCEDURES**

**JULY 1, 1997 THROUGH JUNE 30, 2000**

R. Navarro & Associates, Inc. prepared this report under contract to the U.S. Department of Labor, Office of Inspector General, and by acceptance it becomes a report of the Office of Inspector General.

Elliot P. Lewis

Assistant Inspector General for Audit
U.S. Department of Labor

Report No.: 04-03-018-03-340
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***R. NAVARRO & ASSOCIATES, INC.***

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## *ACRONYMS*

| | |
|---|---|
| CFR | Code of Federal Regulations |
| DOL | U.S. Department of Labor |
| ETA | Employment and Training Administration |
| FSR | Financial Status Report |
| FY | Fiscal Year |
| IFAS | Iowa Financial Accounting System |
| JTPA | Job Training Partnership Act |
| OIG | Office of the Inspector General |
| PY | Program Year |
| SFY | States Fiscal Year |
| SEFA | Schedule of Expenditures of Federal Awards |
| WIA | Workforce Investment Act |

Mr. Elliot P. Lewis
Assistant Inspector General for Audit
Office of Inspector General
U.S. Department of Labor

***INDEPENDENT ACCOUNTANTS= REPORT***
***ON APPLYING AGREED-UPON PROCEDURES***

We have performed the procedures enumerated in the “Procedures and Findings” section of this report. These procedures were agreed to by the U.S. Department of Labor (DOL), Office of Inspector General (OIG). We completed these procedures solely to assist the OIG in evaluating the State of Iowa’s closeout practices for Job Training Partnership Act (JTPA) grants awarded by the DOL Employment and Training Administration (ETA) from July 1, 1997 through June 30, 2000.

Management of the State of Iowa is responsible for closing JTPA grants in accordance with applicable regulations and requirements established by ETA. ETA is responsible for processing and certifying grant closure, and recording final obligation, expenditure and payment information in DOL=s general ledger.

This agreed-upon procedures engagement was performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of your office as the specified user of the report. Consequently, we make no representation regarding the sufficiency of the procedures performed either for the purpose for which this report has been requested or for any other purpose.

The results of our procedures are described in the “Procedures and Findings” section of this report.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the accompanying information obtained from the respective entities. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the DOL, OIG, and is not intended to be, and should not be used, by anyone other than the specified party.

March 1, 2002 R. Navarro & Associates, Inc.

## *SUMMARY OF FINDINGS*

The State of Iowa (State) submitted its Job Training Partnership Act (JTPA) closeout package to the U.S. Department of Labor (DOL), Employment and Training Administration (ETA) on December 29, 2000, which was within the timeframes established by ETA. We identified the JTPA expenditures reported on the final closeout report, and found that the amounts were reasonable based on data previously reported to ETA. However, we were unable to determine if the JTPA expenditures reported to ETA were supported by the State's accounting records. The State's official accounting system did not record expenditures by program. We were provided certain off-ledger financial records and reports, mostly EXCEL spreadsheets, but we were unable to determine an audit trail from the off-ledger records to the FSRs.

The JTPA program was audited as a major program in the State's single audits for State Fiscal Year (SFY) 1999 and SFY 2000. The SFY 2000 single audit report included four unresolved findings pertaining to the JTPA program. In the findings, the single auditors' reported that: the Iowa Workforce Development Department did not have effective cash management procedures; Federal reports were not reconciled to the State of Iowa's financial accounting system; procedures were not in place to insure the accuracy of data entered into its internal cost allocation system; and the Department was unable to provide a Schedule of Expenditures of Federal Awards, as required by OMB Circular A-133.

We visited two subrecipients, and found that final expenditures reported to the State reconciled to the subrecipients' accounting records.

**State of Iowa's Response and Independent Accountants' Comments**

Iowa Workforce Development provided a written response to our draft report, dated February 28, 2003, which is included in its entirety at Exhibit I. Iowa Workforce Development generally did not concur with the findings and information presented in the report, however, its written response did not provide additional information that would change the findings as stated.

## *BACKGROUND, OBJECTIVES, SCOPE AND METHODOLOGY*

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### Background

The JTPA was enacted in 1982 to provide job training programs which would afford disadvantaged youth and adults with the training necessary to obtain productive employment. The JTPA program was repealed on June 30, 2000, when ETA implemented a successor program, authorized by the Workforce Investment Act. The closeout of active JTPA grants began in July 1999, with final closeouts due no later than December 31, 2000. Unspent funds from the PY 1998 and PY 1999 JTPA State grants were authorized for transition into the WIA program.

All JTPA closeout information is sent to the DOL, ETA, Office of Grant and Contract Management, Division of Resolution and Appeals. According to 20 CFR, Part 627.485, JTPA grants should normally have been closed within 90 days after the time limitation for expenditure of JTPA funds. For PY 1997 grants, the 90-day limitation expired September 30, 2000. However, in certain instances, ETA extended the reporting beyond that specified in the program regulations. According to instructions set forth by ETA in the *JTPA Financial Closeout Technical Assistance Guide*, final JTPA financial reports for PY 1998 and PY 1999 grants should have been submitted no later than December 31, 2000.

### Objectives, Scope and Methodology

In general, our procedures were designed to determine if: the State of Iowa closed its JTPA grants on a timely basis in accordance with ETA instructions; amounts reported in the closeout packages and/or the final cost reports were reasonable and supported by the State's and subrecipients' accounting records; and there were unresolved audit findings pertaining to JTPA awards.

Our agreed-upon procedures include the JTPA funds awarded to the State of Iowa for PYs 1997, 1998 and 1999, and FYs 1997 and 1998. Procedures were applied to grant activities reported by the State and two subrecipients, Central Iowa Employment and Training Consortium and Hawkeye Community College, on final closeout reports.

**1. Identify the State's JTPA grants to be included in the scope of these procedures, and the obligations and final reported expenditures related to each.**

The JTPA grants awarded to the State of Iowa and included in the scope of these procedures are as follows:

| | | Per Grantee Closeout | | |
|---|---|---|---|---|
| **Year and Title** | **Federal Obligations Authority** | **Total Reported Expenditures** | **Inter-title Transfers** | **Net Expenditures (Computed)** |
| FY 97 II B | $ 3,384,040 | $ 3,384,040 | $ (569,118) | $ 2,814,922 |
| PY 97 II & III | 8,443,786 | 8,443,614 | 569,118 | 9,012,732 |
| PY 97 III D | 1,498,125 | 1,404,913 | 0 | 1,404,913 |
| FY 98 II B | 3,495,866 | 3,495,598 | (676,191) | 2,819,407 |
| PY 98 II & III | 9,712,556 | 9,655,093 | 676,191 | 10,331,284 |
| PY 99 Adult | 8,187,622 | 6,233,104 | (43,587) | 6,189,517 |
| PY 99 Youth | 3,624,003 | 2,919,063 | 43,587 | 2,962,650 |
| Total | $38,345,998 | $35,535,425 | $ 0 | $ 35,535,425 |

**2. Determine if the JTPA grants awarded to the State were closed on a timely basis in accordance with ETA instructions.**

The Iowa Department of Workforce Development submitted its closeout package within the timeframes established by ETA. The closeout was submitted to ETA on December 29, 2000.

**3. Inspect the closeout information reported to ETA, and determine if the information was consistent with data previously reported on final FSRs.**

The State of Iowa submitted final FSRs with the closeout package; consequently, there were no differences between the FSRs and the closeout. As an alternative procedure, we inspected the JTPA reconciliation worksheet prepared by ETA which identified the final cost entries required to be recorded in the DOL's general ledger. This worksheet identified only minor adjustments to previously recorded grant costs. Accordingly, the amounts reported on the closeout package are considered to be reasonable based on amounts previously reported to ETA.

**4. Determine if amounts reported on final cost reports or on the closeout package were supported by the State's accounting records.**

We were unable to perform this procedure. The official accounting system for the state of Iowa, the Iowa Financial Accounting System (IFAS) did not record expenditures at the program level. Rather, program level expenditures were recorded off-ledger in a financial tracking system and then were summarized in an EXCEL spreadsheet program, from which the FSRs were prepared. The State had not prepared a reconciliation of the JTPA expenditures recorded in the two off-ledger systems to the IFAS.

We were not able to trace the JTPA expenditures recorded in the two off-ledger systems to those reported on the FSRs. Throughout the duration of our site visit, State officials provided various reports from these systems in an effort to provide support for amounts reported on the FSRs, however, each time it was determined that documents provided were not complete and did not directly trace to the FSRs. We made several attempts at this process, but we were never provided with reports from the off-ledger systems that provided a clear audit trail to the FSRs.

**5. Select a sample of two final closeout reports submitted by subrecipients to the State, and determine if the subrecipients' final JTPA expenditures were accurately recorded in the State's accounting records.**

Due to the situation described at procedure 4, we could not complete this procedure.

**6. Obtain the State's single audit reports submitted for the two most recent fiscal years available, and identify the JTPA expenditures reported on the Schedule of Expenditures of Federal Awards (SEFA). Determine if these funds were tested as a major program, in accordance with single audit requirements.**

We obtained the State's single audit reports for SFY 1999 and SFY 2000, and identified the total JTPA expenditures reported on the SEFA, $17.8 million and $13.6 million, respectively. The JTPA program cluster was listed as a major program for both fiscal years.

**7. Determine if the single audit reports identified reportable conditions, material weaknesses, report qualifications, or any other audit issues pertaining to JTPA grants that remain unresolved.**

The State's annual single audit report for FY 2000 (most recent available) included the following reportable conditions relative to the JTPA program. Findings A through D represent prior year findings that carried over to FY 2000. In all cases, the state provided responses to the findings that were accepted by the single auditors, but the responses were based on modification of the accounting system in future periods. These modifications were not complete as of the date of our site visit.

A. Cash Management, finding 00-III-DOL-309-1

The single auditors' review of the Iowa Department of Workforce Development's cash management system identified that: the process for requesting funds involved combining programs for the forecasting of daily cash needs; commingling federal and non-federal funds did not provide evidence that the funds drawn down by each major program were disbursed within a minimal period; and cash balances by specific federal program were not determined prior to a draw down, which resulted in one program and / or state appropriation subsidizing other programs.

The State acknowledged these findings, and indicated that the primary accounting system, IFAS, would be modified in future periods to include program level information. The single auditors accepted this response.

B. Federal Financial Reports, finding 00-III-DOL-309-2

The single auditors reported that Federal financial reports were prepared from the Department's internal cost accounting system and service delivery area reports. However, the data in the cost accounting system and service area reports was not reconciled to the State of Iowa's Financial Management System (IFAS).

The State acknowledged this finding, and indicated that the primary accounting system, IFAS, would be modified in future periods to include program level information. The single auditors accepted this response.

C. Cost Allocation / Allowable Cost, finding 00-III-DOL-309-3

The single auditors' review of cost allocation practices identified that: there was no mechanism in place to detect data entry errors that may have occurred when entering information into the Department's cost allocation system; and for two of sixty expenditure claims tested, the activity codes originally assigned were later changed, without documentation as to the reason for the change.

The State acknowledged these findings, and indicated that the primary accounting system, IFAS, would be modified in future periods to include program level information. The modification of IFAS would eliminate the cost allocation system described in the finding. The single auditors accepted this response.

D. Schedule of Expenditures of Federal Awards, finding 00-III-DOL-309-4

The single auditors reported that the Iowa Department of Workforce Development was unable to provide a Schedule of Expenditures of Federal Awards, as required by OMB Circular A-133. Rather, the Department provided a listing of federal cash draw downs by program.

The State acknowledged this finding, and indicated that the primary accounting system, IFAS, would be able to generate expenditures by program in future periods. The single auditors accepted this response.

E. Subrecipient Monitoring, finding 00-III-DOL-309-5

The single auditors' review of the Department's subrecipient monitoring activities during fiscal year 2000 identified that: fiscal monitoring was not performed on two of fourteen Service Delivery Area and Sub-State Grantees; program monitoring was not performed on any of the Service Delivery Areas and Sub-State Grantees; and seven of the eighteen subrecipient audit reports were not received by the Department within nine months of the fiscal year end.

In response to this finding, the State provided various reasons why the site-level monitoring had not taken placed. The single auditors accepted their response.

**8. Obtain the final cost reports submitted by two subrecipients and determine if the amounts reported were supported by the subrecipients' accounting records.**

We visited two subrecipients, the Central Iowa Employment and Training Consortium and the Hawkeye Community College. For each subrecipient, we compared the final JTPA expenditures reported to the State to expenditures recorded in the subrecipients accounting systems, and found that the amounts reconciled.

**9. Obtain the subrecipients single audit reports and identify the JTPA expenditures reported on the Schedule of Expenditures of Federal Awards. Determine if the amounts agree or were reconciled by the single auditors to the expenditures recorded in the accounting records.**

We obtained the single audit reports for both subrecipients visited and identified the JTPA expenditures reported on the SEFA. We compared the SEFA expenditures to expenditures recorded in the subrecipients accounting records, and found that the amounts reconciled.

**10. Inspect the single audit reports submitted for the subrecipients and determine if there were reportable conditions, material weaknesses, report qualifications, or any other audit issues pertaining to JTPA grants that remain unresolved.**

We obtained the single audit reports for both subrecipients visited, and determined that the audit reports did not identify any unresolved reportable conditions, instances of noncompliance, report qualifications or other issues pertaining to the JTPA program.

**State of Iowa's Response**

The Iowa Workforce Development provided a written response to our draft report, dated February 28, 2003, which is included in its entirety at Exhibit I. In general, the State disagreed with the information presented in the report, and indicated that the report was an unfair representation of the agency's performance. The key points were:

1. The State contended that the Auditor of State performs an annual audit of the agency's programs, and that the auditor was able to trace all costs from the State's accounting system to the off-ledger system. The State claimed that the off-ledger system was provided by the USDOL, which is why it did not link to the State's accounting system, and was abandoned for the State's own system as of July 1, 2000.

2. The State indicated that since we were able to trace the subrecipient's final Financial Status Reports to the subrecipient's books of account, that we were able to accomplish some of the procedure required by item 5 of the draft report.

3. The State disagreed with the report comment that the implementation of the new system was not complete as of the date of our fieldwork. The State indicated that the agency implemented the sole use of the State's accounting system on July 1, 2000 and that we were informed of this fact during our site visit.

4. The State commented that the inability to trace costs to the accounting system was due to the team's unfamiliarity with the JTPA program.

**Independent Accountants' Comments**

The comments provided by the State in its response do not adequately address the most critical issue noted in our report, that is, we were never provided with accounting records or reports from either the IFAS or the off-ledger systems that provided a clear audit trail to the FSRs and closeout report. This fact was communicated on numerous occasions to State officials.

Procedure 5 was intended to determine if subrecipient expenditure reports were accurately recorded in the State's accounting system. Our procedure to trace subrecipient expenditure reports to the subrecipients' accounting systems (procedure 8) was a separate procedure to determine if there was an audit trail for amounts reported by the subrecipient. This procedure did not provide support as to the accuracy of the State's records.

As to the State's claim that the single auditors were able to reconcile the off-ledger system to the IFAS as part of the annual audits, we provide the following quote from the SFY 2000 audit report, "the data in the cost accounting system and service delivery area reports are not reconciled to the State of Iowa's Financial Accounting System (IFAS)." The single auditors also reported that the State was unable to

produce a Schedule of Expenditures of Federal Awards by Federal program.
During our site visit, we spoke to representatives from the State's Auditor General Office and were informed that there were several problems with the accounting systems during the years covered by our procedures (1997 to 2000). The auditors informed us that the off-ledger accounting system was found to have errors and was not reconciled to IFAS.

As to the State's contention that IFAS was fully implemented as of July 1, 2000, the single auditors informed us that the State was in the process of implementing the full use of IFAS. We interpreted this to mean that the process was not yet complete. However, even if the State fully implemented the changes to the IFAS system as of July 2000, this would have no impact on the accounting of JTPA expenditures incurred in prior years and reported to DOL on the closeout and final FSRs.

Finally, we wish to note that the team sent to Iowa to perform the agreed-upon procedures was made up of individuals who visited other states, where they were able to perform these procedures without exception.

**EXHIBIT I**

# THE COMPLETE TEXT OF IOWA'S RESPONSE TO THE DRAFT AGREED-UPON PROCEDURES REPORT

Following this title page is the complete text of Iowa's response to our agreed-upon procedures report, issued to them on February 14, 2003.

Iowa Workforce Development

Thomas J. Vilsack, Governor  Sally J. Pederson, Lt. Governor  Richard V. Running, Director

Putting Iowa to Work

February 28, 2003

Robert R. Wallace, Regional Inspector General for Audit
U. S. Department of Labor – OIG
61 Forsyth Street, SW, Room 6T20
Atlanta, GA 30303-3104

Re: Draft Report by Navarro

Dear Mr. Wallace:

Iowa Workforce Development takes issue with the draft report relating to the monitoring and review by R. Navarro and Associates, Inc.

First, I will address comments to the numbered Procedures and Findings:

4. Navarro staff indicated they were unable to perform this procedure. The State of Iowa Auditor of State performs an annual audit of the agency's programs. The Auditor of State was able to trace all costs from the State's accounting system to the, "off-ledger'" system. The basic reason for the, "off-ledger," system was that the agency had been using the USDOL provided cost accounting system which did not link to the State's accounting system. The agency abandoned the USDOL provided system on July 1, 2000 and went to the State's system as the sole system. Navarro staff were well of this.

   It is our contention that the inability of Navarro staff to perform this procedure was their own unfamiliarity with the JTPA program, and was further exacerbated by two of the staff's limited English speaking ability. Explanations were very difficult.

5. Navarro staff indicated that they were unable to perform this procedure. Please note that in the executive summary and number 8 they were able to take the Financial Status Report that we provided them and reconcile it to the sub recipient's books of account. Obviously, some of the procedure could be accomplished.

6. Comments relating to the agency's most recent single audit indicated that the, "modifications were not complete as of the date of our audit

fieldwork." This is totally incorrect. The agency implemented the sole use of the State's accounting system on July 1 2000. Navarro's visit was in February 2002. This information was relayed to Navarro's staff on numerous occasions during their visit.

All in all, we feel that Navarro's report is an unfair representation of the agency's performance. We again stress the inadequate preparation and knowledge of the JTPA programs involved and the difficulty with communication.

If you have questions relating to this response, please feel free to contact me at 515/281-5095.

Sincerely,

Stephen H. Morris, Division Administrator
Administrative Services